Around the Globe

SCGP Swells U.S. Sales In Mexico

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By Kathryn DeRemer

Exporters to Mexico have made the greatest use of the Supplier Credit Guarantee Program (SCGP). Each year, since 1998, SCGP exports to Mexico have increased by about 100 percent.

During its early implementation (from 1997 to 1998), the SCGP grew even more rapidly, from $450,000 worth of coverage to over $15 million. In fiscal 2001, USDA extended $133.95 million worth of coverage under the SCGP in Mexico.

While the SCGP has been growing rapidly, the GSM-102 program remained three times the size of SCGP in terms of the coverage extended in Mexico in fiscal 2001. But as noted, SCGP use has been growing rapidly since 1998, while GSM-102 use has been declining about 15 percent per year on average. If the shifts in program use continue at these rates, the use of SCGP could exceed the use of GSM-102 in Mexico by fiscal 2003. However, the recent extension of GSM-102 to three-year credit terms for Mexico could bolster use of that program.

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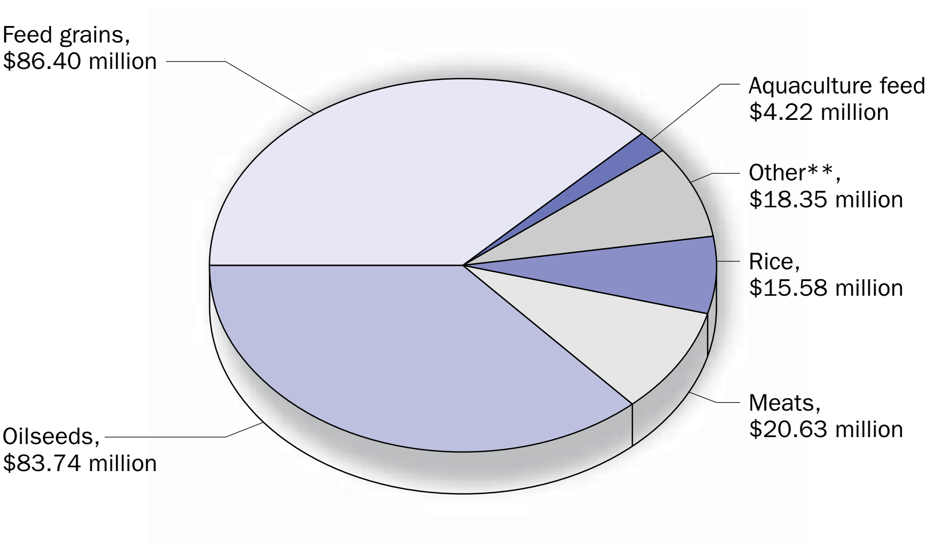
Suppliers use the program to manage credit risk with both new and repeat buyers. The program provides a way to mitigate the risk of selling to an unknown importer, though some companies use the program with every direct sale to Mexican importers. The SCGP is a tool that many companies use regularly to manage their credit portfolios, and it has become part of their standard operating procedures.

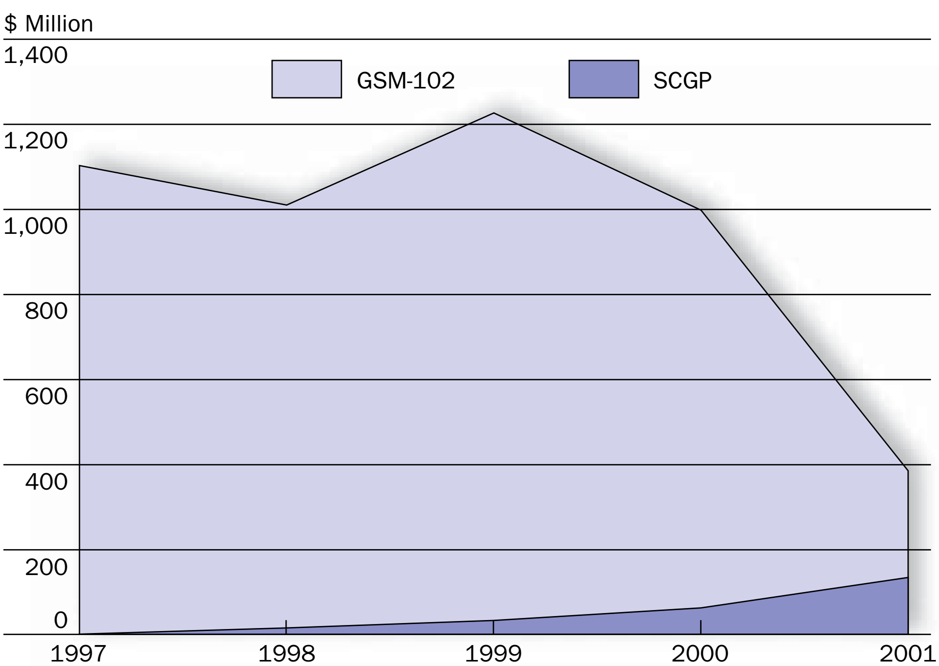
A wide variety of commodities are sold using the SCGP. Based on dollar coverage for 1999-2001, 75 percent of the program in Mexico supported sales of feed grains such as corn (white and yellow) and sorghum, and oilseed products such as soybeans and soybean meal. Other commodities sold under the SCGP in that period were meats, which accounted for 9 percent of SCGP coverage; rice (rough and

During 1999-2001, SCGP Funding Supported Sales* of Numerous U.S. Commodities in Mexico



*Registrations—i.e., USDA guarantees of 65% of sales values.
**Includes animal fat, breakfast cereals, cotton, fruits (canned and fresh), livestock, pet food, potatoes, protein meals, dried beans, soft drinks, wheat, wines and wood.

In the Past Five Years, GSM-102 Use in Mexico Has Declined, While SCGP Use Has Climbed



milled), 8 percent; and aquaculture feed, 2 percent. Meat products sold using the program included fresh and frozen beef and pork and beef offals.

Vista Trading, an exporter that has used the program in Mexico since fiscal 2000, explained that the balance between the amount of coverage the company received and its exposure risk was important. Vista Trading has used the program for exports of sorghum and corn. "The USDA-guaranteed value of 65 percent is enough to encourage the exporter to participate in the program," said Wayne See, Vista's export sales manager. "The 35-percent credit risk is enough incentive for the exporter to exercise proper diligence to make sure the importer is financially sound."

Based on interviews with other exporters that benefitted from SCGP coverage in fiscal 2001, FAS' Agricultural Trade Office (ATO) in Mexico City anticipates program use will likely increase in fiscal 2002. The exporters interviewed thought that most of their new sales directly to suppliers to Mexico will occur through the program.

ATO Mexico City does not expect the mix of product sales covered by the SCGP to change significantly in the next couple of years. However, based on projections of exporters using the program, predicted growth of the Mexican market and continued promotion of the program by ATO Mexico City and ATO Monterrey, use of the program will continue to grow. ■

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